

**Town of Valley Brook, Oklahoma**  
**Financial Statements and Auditor's Report**  
**June 30, 2014**

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## Independent Auditor's Report

To the Board of Trustees  
Town of Valley Brook, Oklahoma

### Report on the Financial Statements

We have audited the accompanying modified cash-basis financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Town of Valley Brook, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash-basis of accounting described in Note 1. This includes determining that the modified cash-basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash-basis financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Valley Brook, as of June 30, 2014, and the respective changes in modified cash-basis financial position, and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

## **Other Matters**

### **Required Supplementary Information**

Management has omitted the management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated July 25, 2014, on our consideration of the Town of Valley Brook's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Town of Valley Brook's internal control over financial reporting and compliance.

### **Basis of Accounting**

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash-basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with the respect to this matter.

*Cassey J. Russell CPA, s/c.*

Oklahoma City, Oklahoma  
July 25, 2014

**Town of Valley Brook, Oklahoma**  
**Statement of Net Position - Modified Cash Basis**  
**June 30, 2014**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash in bank - unrestricted	1,254,858.24	141,424.81	1,396,283.05
Total current assets	1,254,858.24	141,424.81	1,396,283.05
Noncurrent assets:			
Net capital assets	227,751.24	244,003.72	471,754.96
Total noncurrent assets	227,751.24	244,003.72	471,754.96
Total assets	<u>\$ 1,482,609.48</u>	<u>\$ 385,428.53</u>	<u>\$ 1,868,038.01</u>
<b>LIABILITIES</b>			
Current liabilities:			
Payroll taxes payable	-	-	-
Bonds Held-in-Trust	22,489.00	-	22,489.00
Meter deposits	-	-	-
Total current liabilities	<u>22,489.00</u>	<u>-</u>	<u>22,489.00</u>
Noncurrent liabilities:			
Leases payable	119,883.00	-	119,883.00
Total noncurrent liabilities	<u>119,883.00</u>	<u>-</u>	<u>119,883.00</u>
Total liabilities	<u>142,372.00</u>	<u>-</u>	<u>142,372.00</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	107,868.24	244,003.72	351,871.96
Unrestricted	1,232,369.24	141,424.81	1,373,794.05
Total net position	<u>1,340,237.48</u>	<u>385,428.53</u>	<u>1,725,666.01</u>
Total liabilities and net position	<u>\$ 1,482,609.48</u>	<u>\$ 385,428.53</u>	<u>\$ 1,868,038.01</u>

**Town of Valley Brook**  
**Statement of Activities - Modified Cash Basis**  
**For the Year Ending June 30, 2014**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position Primary Government		Total
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
Primary government						
Governmental activities:						
General Government	310,196.40	40,194.80	-	(270,001.60)	-	(270,001.60)
Police Department	556,950.29	877,031.75	-	320,081.46	-	320,081.46
Fire Protection	35,000.00	-	-	(35,000.00)	-	(35,000.00)
Total governmental activities	902,146.69	917,226.55	-	15,079.86	-	15,079.86
Business-type activities						
Sewer department	154,423.62	70,026.68	-	-	(84,396.94)	(84,396.94)
Garbage department	56,670.97	46,825.31	-	-	(9,845.66)	(9,845.66)
Total business-type activities	211,094.59	116,851.99	-	-	(94,242.60)	(94,242.60)
Total primary government	<u>\$ 1,113,241.28</u>	<u>\$ 1,034,078.54</u>	<u>\$ -</u>	<u>\$ 15,079.86</u>	<u>\$ (94,242.60)</u>	<u>\$ (79,162.74)</u>
General revenues:						
Taxes:						
Sales tax				107,177.25	-	107,177.25
Other taxes				38,357.37	-	38,357.37
Interest income				337.09	45.92	383.01
Transfers in/out				(85,889.84)	85,889.84	-
Total general revenues				59,981.87	85,935.76	145,917.63
Change in net position				75,061.73	(8,306.84)	66,754.89
Net position - beginning				1,265,175.75	393,735.37	1,658,911.12
Net position - ending				<u>\$ 1,340,237.48</u>	<u>\$ 385,428.53</u>	<u>\$ 1,725,666.01</u>

The accompanying notes are an integral part of these financial statements

**Town of Valley Brook, Oklahoma**  
**Balance Sheet**  
**Governmental Funds - Modified Cash Basis**  
**June 30, 2014**

	General Fund	Municipal Court Fund	Street & Alley Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash in bank	1,081,847.60	26,852.40	146,158.24	1,254,858.24
Total assets	<u>\$ 1,081,847.60</u>	<u>\$ 26,852.40</u>	<u>\$ 146,158.24</u>	<u>\$ 1,254,858.24</u>
<b>LIABILITIES</b>				
Bonds Held-in-Trust	-	22,489.00	-	22,489.00
Total liabilities	-	22,489.00	-	22,489.00
<b>FUND BALANCES</b>				
Unassigned	1,081,847.60	-	-	1,081,847.60
Restricted	-	4,363.40	146,158.24	150,521.64
Total fund balances	<u>1,081,847.60</u>	<u>4,363.40</u>	<u>146,158.24</u>	<u>1,232,369.24</u>
Total liabilities and fund balances	<u>\$ 1,081,847.60</u>	<u>\$ 26,852.40</u>	<u>\$ 146,158.24</u>	<u>\$ 1,254,858.24</u>

***Reconciliation of Total Governmental Fund Balance  
to Net Position of Governmental Activities  
June 30, 2014***

<i>Total Governmental Fund Balances</i>	\$ 1,232,369.24
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
<i>Capital Debt</i>	(119,883.00)
<i>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</i>	<u>227,751.24</u>
<i>Net Position of Governmental Activities</i>	<u>\$ 1,340,237.48</u>

**Town of Valley Brook, Oklahoma**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds - Modified Cash Basis**  
**For the Year Ended June 30, 2014**

	General Fund	Municipal Fund	Street & Alley Fund	Total Governmental Funds
<b>Revenues:</b>				
Sales Tax	107,177.25	-	-	107,177.25
Use Tax	2,057.74	-	-	2,057.74
Franchise Tax	26,460.74	-	-	26,460.74
Cigar Tax	1,240.72	-	-	1,240.72
Acohol Beverage Tax	1,204.62	-	-	1,204.62
Motor Vehicle Tax	-	-	5,981.94	5,981.94
Gas Tax	-	-	1,411.61	1,411.61
Licenses & Permits	40,194.80	-	-	40,194.80
Fines & Foreitures	382,916.75	494,115.00	-	877,031.75
Interest	337.09	-	-	337.09
Capital Financing	129,883.00	-	-	129,883.00
Total revenues	691,472.71	494,115.00	7,393.55	1,192,981.26
<b>Expenditures:</b>				
General Government	323,474.84	-	-	323,474.84
Police Department	745,959.84	8,902.13	-	754,861.97
Fire Protection	35,000.00	-	-	35,000.00
Total expenditures	1,104,434.68	8,902.13	-	1,113,336.81
Excess revenues over (under) expenditures	(412,961.97)	485,212.87	7,393.55	79,644.45
Transfers In/Out	397,427.07	(481,431.37)	(1,885.54)	(85,889.84)
Excess revenues over (under) after transfers	(15,534.90)	3,781.50	5,508.01	(6,245.39)
Fund balances at beginning of year	1,097,382.50	581.90	140,650.23	1,238,614.63
Fund balances at end of year	\$ 1,081,847.60	\$ 4,363.40	\$ 146,158.24	\$ 1,232,369.24

**Reconciliation of Statement of Revenues, Expenditures and Changes in Fund  
Balances of Governmnetal Funds to the Statement of Activities for the  
Year Ended June 30, 2014**

Net change in fund balances-total government funds	\$ (6,245.39)
Purchase of fixed assets recorded as an expense in the fund financial statements but recorded as an addition to fixed assets in the government wide statements	222,725.31
Capital debt proceeds	(129,883.00)
Capital debt obligation principal payments	10,000.00
Depreciation expense recorded in the government wide financial statements but not recorded in the individual fund financial statements	(21,535.19)
Change in net assets of governmental activities	\$ 75,061.73



**Town of Valley Brook, Oklahoma**  
**Statement of Net Position - Modified Cash Basis**  
**Proprietary Funds**  
**June 30, 2014**

**ASSETS**

**Current assets:**

Cash in bank - unrestricted	141,424.81
Total current assets	<u>141,424.81</u>

**Noncurrent assets:**

Net capital assets	244,003.72
Total noncurrent assets	<u>244,003.72</u>
Total assets	<u><u>\$ 385,428.53</u></u>

**NET POSITION**

Invested in capital assets, net of related debt	244,003.72
Unrestricted	<u>141,424.81</u>
Total net position	<u>385,428.53</u>
Total liabilities and net position	<u><u>\$ 385,428.53</u></u>

**Town of Valley Brook, Oklahoma**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Fund Type - Modified Cash Basis**  
**For the Year Ended June 30, 2014**

Operating Revenues:	
Sewer Fees	\$ 70,026.68
Garbage Fees	<u>46,825.31</u>
Total operating revenues	116,851.99
Operating Expenses:	
Sewer department	154,423.62
Garbage department	<u>56,670.97</u>
Total operating expenses	<u>211,094.59</u>
Operating income (loss)	(94,242.60)
Non-operating revenues (expenses):	
Interest income	<u>45.92</u>
Net non-operating revenues (expenses)	<u>45.92</u>
Change in net position before transfers	(94,196.68)
Transfers in/out	<u>85,889.84</u>
Change in net position after transfers	(8,306.84)
Net position at beginning of year	<u>393,735.37</u>
Net position at end of year	<u><u>\$ 385,428.53</u></u>

**Town of Valley Brook**  
**Statement of Cash Flows - Proprietary Fund**  
**Modified Cash Basis**  
**For the Year Ending June 30, 2014**

Cash flows from operating activities	
Cash received from customers	\$ 116,851.99
Cash received in interest on deposits	45.92
Cash paid to employees	(64,234.67)
Cash paid to suppliers	(133,372.71)
Transfers in/out	<u>85,889.84</u>
Net cash provided by operating activities	5,180.37
 Cash flows from capital activities	
Increase (decrease) in meter deposit liability	<u>-</u>
Net cash provided (used) for capital activities	<u>-</u>
 Net increase (decrease) in cash and cash equivalents	5,180.37
 Cash and cash equivalents at beginning of year	<u>136,244.44</u>
Cash and cash equivalents at end of year	<u><u>\$ 141,424.81</u></u>
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	(8,306.84)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation expense	<u>13,487.21</u>
Net cash provided (used) by operating activities	<u><u>\$ 5,180.37</u></u>

**Town of Valley Brook  
Notes to Financial Statements  
June 30, 2014**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

**1.A. FINANCIAL REPORTING ENTITY**

The Town of Valley Brook, Oklahoma is a statutory Town Government under Oklahoma Statutes. The Town provides the following services: public safety, streets and highways, sanitation, public improvements, utilities and general administrative services.

The criteria used to determine which accounting entities, agencies, commissions, boards and authorities are part of the Town's operations include how the budget is adopted, whether debt is secured by general obligation of the Town, the Town's duty to cover any deficits that may occur, and supervision over the accounting functions. Any separate accounting entities would be considered component units. There are no agencies, organizations or activities meeting any of the above criteria that are excluded from the Town's reporting entity. As of June 30, 2014, the Town has one component unit, the Valley Brook Public Works Authority.

**1.B. BASIS OF PRESENTATION**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole within the limitations of the modified cash basis of accounting. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities.

Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed, in whole or part, by fees charged to external parties for goods or services.

**FUND FINANCIAL STATEMENTS**

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, deferred outflows, liabilities, deferred inflows, net position or fund balance, revenues, and expenditures or expenses. The Town's funds are organized into two major categories: governmental and proprietary. The Town presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures or expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type.

**Town of Valley Brook  
Notes to Financial Statements  
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- b. Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures or expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described subsequently:

**Governmental Funds**

**General Fund**

The General Fund is the primary operating fund of the Town and always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

**Special Revenue Funds**

Special Revenue Funds are used to account for and report the proceeds of the specific revenue sources that are either restricted or committed to expenditures for specified purposes other than debt service or capital projects. The reporting entity includes the following special revenue funds, all of which are reported as nonmajor funds: Street & Alley Fund, Municipal Court.

**Proprietary Funds**

**Enterprise Fund**

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise fund that is reported as a major fund: Valley Brook PWA.

**1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

**MEASUREMENT FOCUS**

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as subsequently defined in item (b).

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

**Town of Valley Brook  
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- b. The proprietary fund utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

**BASIS OF ACCOUNTING**

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position or balance sheets cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, interfund receivables and payables, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses or expenditures (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the Town utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

**1.D. FINANCIAL POSITION**

**CASH AND CASH EQUIVALENTS**

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less. Trust account investments in open-ended mutual fund shares are also considered cash equivalents.

**INVESTMENTS**

Investments classified in the financial statements consist entirely of certificates of deposit acquired with cash whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

**CAPITAL ASSETS**

The Town's modified cash basis of accounting reports capital assets resulting from cash transactions or events and reports depreciation, when appropriate. The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or

**Town of Valley Brook**  
**Notes to Financial Statements**  
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proprietary fund and similar discretely presented component unit operations and whether they are reported in the government-wide or fund financial statements.

**Government-Wide Statements**

In the government-wide financial statements, capital assets arising from cash transactions or events are accounted for as assets in the Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable.

Depreciation of all exhaustible capital assets arising from cash transactions or events is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of \$500 is used to report capital assets. The range of estimated useful lives by type of asset is as follows:

Buildings	40-50 years
Improvements other than buildings	10-25 years
Machinery, furniture, and equipment	3-20 years
Utility property and improvements	10-50 years
Infrastructure	25-50 years

**Fund Financial Statements**

In the fund financial statements, capital assets arising from cash transactions or events acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets acquired for use in proprietary fund operations are accounted for the same as in the government-wide statements.

**LONG-TERM DEBT**

All long-term bonds, notes, and other debt arising from cash transactions or events to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements.

Long-term debt arising from cash transactions or events of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources, and payment of principal and interest is reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements.

**NET POSITION/FUND BALANCE CLASSIFICATIONS**

**Government-Wide Statements**

Net Position is classified and displayed in three components:

1. *Net investment in capital assets.* Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. *Restricted.* Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by

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Notes to Financial Statements  
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external groups, such as creditors, grantors, contributors, or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.

3. *Unrestricted.* Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the Town's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

### **Fund Financial Statements**

#### **Governmental Funds**

The difference among assets, deferred outflows, liabilities, and deferred inflows of governmental funds is reported as fund balance and classified as nonspendable, restricted, committed, assigned, and unassigned based on the respective level of constraint. These constraints are defined as follows:

**Nonspendable.** Amounts that cannot be spent because they either are not in spendable form or are legally or contractually required to be maintained intact.

**Restricted.** Amounts constrained regarding use from restrictions externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or by restrictions imposed by law through constitutional provisions or enabling legislation.

**Committed.** Amounts constrained regarding use for specific purposes pursuant to requirements imposed by formal action of the Town's highest level of decision-making authority. (In the case of the Town of Example, commitments are evidenced by adoption of an ordinance by the Town Council.)

**Assigned.** Amounts constrained by the Town's intent to be used for specific purposes but that are neither restricted nor committed. (In the case of the Town of Example, assignments are evidenced either by resolution of the Town Council or by the Town Manager in written form as approved by vote of the Town Council pursuant to Town policy.)

**Unassigned.** The residual classification of the General Fund for spendable amounts that have not been restricted, committed, or assigned to specific purposes.

It is the Town's policy to first use restricted fund balances prior to the use of unrestricted fund balances when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. It is also Town policy to use committed fund balances before assigned fund balances and assigned fund balances before unassigned amounts when an expenditure is incurred for purposes for which amounts in those classifications are available to be used.

The Town has no formal minimum fund balance policies or any formal stabilization arrangements in place.

#### **Proprietary Funds**

The difference among assets, deferred outflows, liabilities, and deferred inflows of proprietary funds is reported as net position and classified in the same manner as the government-wide financial statements, as previously described.



**Town of Valley Brook  
Notes to Financial Statements  
June 30, 2014**

**1.E. REVENUES, EXPENDITURES, AND EXPENSES**

**PROGRAM REVENUES**

In the Statement of Activities, modified cash-basis revenues that are derived directly from each activity or from parties outside the Town's taxpayers are reported as program revenues. The Town has the following program revenues in each activity: General Government, Streets, and Public Works.

All other governmental revenues are reported as general revenues. All taxes are classified as general revenue even if restricted for a specific purpose.

**OPERATING REVENUE AND EXPENSES**

Operating revenues and expenses for proprietary funds and the similar discretely presented component unit result from providing services and producing and delivering goods or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

**GASB 34 IMPLEMENTATION**

The Town has implemented the new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, as of June 30, 2004.

**1.G. USE OF ESTIMATES**

The preparation of financial statements in conformity with the modified cash basis of accounting used by the Town requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

**NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

By its nature as a local government unit, the Town and its component units are subject to various federal, state, and local laws and contractual regulations. The following instances of noncompliance are considered material to the financial statements.

**NOTE 3. DEPOSITS WITH FINANCIAL INSTITUTIONS**

The accounts of the Town are required by state law to be secured by collateral pledged by the financial institution and/or FDIC insurance. The Town of Valley Brook is considered a separate entity from the Valley Brook Public Works Authority for FDIC deposit insurance.

In accordance with GASB No. 3, deposits are to be classified into the following three categories:

1. Insured or collateralized with securities held by the entity or by its agent or in the entity's name (Referred to as category 1)
2. Collateralized with securities held by pledging financial institution's trust department or agent in the entity's name. (Referred to as category 2)

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3. Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the entity's name. (Referred to as category 3)

Type of Deposit	Total Bank Balance	Custody Credit Risk		
		1	2	3
Demand Deposits	\$ 1,396,283	\$ 1,197,726	\$ -	\$ 198,557

All of the Town of Valley Brook's government and enterprise fund cash and investment accounts would be considered as category 1 up to its FDIC limits of \$250,000 for the governmental funds and \$250,000 for the Valley Brook Public Works Authority. The Town of Valley Brooks has pledged securities at its local bank in the amount of \$800,000. As of June 30, 2014, the Town had uncollateralized amounts of \$198,557.

**Note 4 – Capital Assets**

The changes in capital asset activity for the year ended June 30, 2014 were as follows:

**Governmental Funds**

	Beginning Balance	Increases	Decreases	Ending Balance
Vehicles	\$ 263,813	206,722	(83,134)	\$ 387,401
Equipment	78,760	-	-	78,760
Buildings & Improvements	267,479	16,003	-	283,482
Total	\$ 610,052			\$ 749,643
Accumulated Depreciation	575,139	21,536	(74,783)	521,892
Net Assets	\$ 34,913			\$ 227,751

As of June 30, 2014, the governmental funds had no capitalized assets that were not being depreciated or had not been depreciated. Depreciation is computed using the straight line method of depreciation over the estimated useful lives of the assets. Assets are recorded at cost or their estimated fair market value for those assets where records were not available.

**Public Works Authority**

	Beginning Balance	Increases	Decreases	Ending Balance
Land	\$ 4,350	-	-	\$ 4,350
Buildings	114,395	-	-	114,395
Sewer System	425,093	-	-	425,093
Total	\$ 543,838			\$ 543,838
Accumulated Depreciation	286,347	13,487	-	299,834
Net Assets	\$ 257,491			\$ 244,004

As of June 30, 2014, the Public Works Authority had no capitalized assets that were not being depreciated or had not been depreciated. Depreciation is computed using the straight line method of depreciation over

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the estimated useful lives of the assets. Assets are recorded at cost or their estimated fair market value for those assets where records were not available.

Depreciation was recorded as follows: General Government - \$2,725, Police Department - \$18,811, Street Department - \$-0-, and Public Works Authority - \$13,487.

**Note 5 – Lease Purchase Agreement**

During the course of the year, the Town entered into a lease purchase agreement with Ford Credit. The proceeds of this note was for the purchase of new police vehicles. This note carries an interest rate of 5.95% and will be paid off on April 30, 2018. The balance of this note was \$119,883 as of June 30, 2014. Principal and interest payments until maturity are as follows:

	Principal	Interest		
2014/2015	24,389.08	9,203.57	Beginning of Year	\$ 129,883.00
2015/2016	27,910.76	5,681.89	Prinicpal Payments	<u>(10,000.00)</u>
2016/2017	29,571.45	4,021.20	End of Year	<u>\$ 119,883.00</u>
2017/2018	38,011.71	2,261.70		
	<u>\$ 119,883.00</u>	<u>\$ 21,168.36</u>		

**Note 6 – Subsequent Events**

Subsequent events have been evaluated through July 25, 2014, which is the date the financial statements were issued.

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## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees  
Town of Valley Brook

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Town of Valley Brook, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Town of Valley Brook's basic financial statements, and have issued our report thereon dated July 25, 2014.

The report was a special report on the Town's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Valley Brook's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Valley Brook's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Valley Brook's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. 2014-1.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Valley Brook's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the

determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2014-2.

#### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Oklahoma City, Oklahoma  
July 25, 2014

## **Schedule of Current Findings and Responses**

### **2014-1 Segregation of Duties (Repeat Finding)**

Condition:	The Town does not have adequate segregation of duties over cash disbursements and cash receipts due to limited personnel.
Criteria:	To ensure all billings, collections, and adjustments are properly accounted for within the accounting system it is imperative to have segregation of duties.
Effect:	Because of the lack of segregation of duties the possibility of material errors and irregularities could occur in the receipting, depositing or accounting adjuring functions and not be detected on a timely basis. However, it is not cost effective to remedy this situation due to the limited financial resources of the Town at this time.
Response:	It is not cost effective to remedy this situation because the costs presently exceed the benefits at this time.

### **2014-2 Deposits Not Fully Collateralized**

Condition:	The Town has not adequately secured collateral for its bank deposits that exceed the FDIC limit.
Cause:	During the course of the year, the town's primary bank sold off the pledged securities that were being held on behalf of the town. The bank has failed to secure other collateral in the place of the previous securities that were being held.
Criteria:	State law requires that deposits of public funds cannot exceed the federal insurance limit unless secured by acceptable collateral. (62 O.S. §511-516). The law also outlines the different forms of security that are allowed if the FDIC limit has been exceeded. (62 O.S. §517).
Effect:	Because the town has failed to maintain adequate collateral for its deposits the town is subject to a potential loss of \$198,557 if the bank was to become insolvent. Not only has the state statute been violated but the town has opened itself up to a substantial loss if not corrected immediately.
Response:	The town and its primary bank are working on ways to correct this issue. If the bank is unable to retain adequate collateral than the excess money will be deposited at another bank that can properly secure collateral for such high deposits.

### **2013-3 Salaries of Elected Officials - Resolved**

### **2013-4 Dual Office Holding - Resolved**